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# Security Council

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## Note by the Secretary-General

The Secretary-General has the honour to transmit herewith to the Security Council the report of the Board of Auditors on the financial statements of the United Nations Compensation Commission for the biennium ended 31 December 2007.

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# Report of the Board of Auditors to the Security Council on the financial statements of the United Nations Compensation Commission for the biennium ended 31 December 2007

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# Chapter I

# Financial report for the biennium ended 31 December 2007

## Introduction

1. The Secretary-General has the honour to submit herewith the financial report on the accounts of the United Nations Compensation Commission (UNCC) for the biennium ended 31 December 2007. The accounts consist of three statements, the related notes and supplementary information contained in the annex to the present chapter.

2. The present report is designed to be read in conjunction with the financial statements. The aforementioned annex includes technical information that is required by the Financial Regulations and Rules to be reported to the Board of Auditors.

## Background

3. The United Nations Compensation Commission is a subsidiary organ of the United Nations Security Council. It was established in accordance with Security Council resolutions 687 (1991) and 692 (1991) to process claims and pay compensation for direct losses and damage suffered by individuals, corporations, Governments and international organizations as a direct result of Iraq's invasion and occupation of Kuwait (2 August 1990 to 2 March 1991).

4. The Commission is composed of the Governing Council, panels of Commissioners and the secretariat. The Governing Council is the policymaking organ of UNCC. Its composition is the same as that of the 15-member Security Council at any given time. The Governing Council makes decisions on recommendations made by the panels of Commissioners regarding compensation for claimants. The panels review and evaluate the claims submitted by Governments on behalf of their nationals, their companies or on their own behalf. On the basis of their review, which is undertaken in instalments of claims, the panels recommend compensation awards to the Governing Council. The secretariat, headed by the Executive Secretary, services and provides assistance to the Governing Council and the panels of Commissioners.

## Operations

5. From its inception until the completion of processing in early 2005, more than 2.6 million claims were received by the Commission within the filing deadlines. The Commission has now resolved all of the claims submitted, consisting of the claims of individuals for departure from Kuwait or Iraq (category "A" claims), the claims of individuals for serious personal injury or death (category "B" claims), the claims of individuals for losses up to $100,000 (category "C" claims), the claims of individuals for losses over $100,000 (category "D" claims), the claims of corporations, other private legal entities and public sector enterprises (category "E" claims), and the claims of Governments and international organizations (category "F" claims).

6. A total of nearly $52.4 billion has been awarded as compensation to successful claims. As at 31 December 2007, the Commission has made available to Governments and international organizations approximately $24 billion for

distribution to successful claimants in all categories. Funds to pay compensation are drawn from the United Nations Compensation Fund, which receives a percentage of the proceeds generated by the export sales of Iraqi petroleum and petroleum products. This percentage has been set at 5 per cent since its reduction from 25 per cent under Security Council resolution 1483 (2003), adopted on 22 May 2003.

7. At its fifty-eighth session, held in December 2005, the Governing Council adopted decision 256 providing for future payments to be made in two phases. Under phase one, which was completed in October 2006, payments were made in rounds of $2 million in the order in which the awards were approved until the remaining unpaid claimants received an amount of $65 million or the unpaid balance of the award, if less. Under phase two, the funds for the payment of the remaining claims will be allocated quarterly as follows: (a) claimants with outstanding amounts greater than $500 million will receive a fixed amount of $2 million; (b) claimants with outstanding amounts smaller than $500 million and awards approved for the third, fourth and fifth instalments of category "F4" environmental remediation claims will receive rounds of payments of $2 million, or the unpaid balance of the award, if less, in the order in which the claims have been approved.

8. In addition to the payment of successful claims, the main ongoing activity of UNCC is overseeing the Follow-up Programme for Environmental Awards, which was established in December 2005 by the Governing Council in its decision 258 to monitor the technical and financial implementation of approximately $4.3 billion of environmental remediation and restoration projects being undertaken with funds awarded in the "F4" category of claims. The Programme is funded by the participating claimant Governments (namely, the Islamic Republic of Iran, Jordan, Kuwait and Saudi Arabia) through voluntary deductions from the subject awards at a rate proportional to the value of those awards.

**Financial overview**

9. The Compensation Fund is operated in accordance with the Financial Regulations and Rules of the United Nations. It finances the administrative costs (with the exception of the Follow-up Programme for Environmental Awards) and payments of compensation awards decided by the Commission. The income to the Compensation Fund for the biennium 2006-2007 increased by 63 per cent from $2,119.1 million in the previous biennium to $3,450.5 million. The increase is due mainly to higher oil prices.

10. Expenses during 2006-2007 amounted to $3,511.9 million, comprising compensation awards of $3,497.2 million and administrative expenses of the Commission of $13.8 million and of the Follow-up Programme for Environmental Awards of $0.9 million. This compares to total expenses of $2,134.4 million in the previous biennium, comprising compensation awards of $2,068.9 million, administrative expenses of the Commission of $58.9 million and $6.6 million related to other expenses. The increase of 69 per cent in compensation awards is due to the increased revenue referred to in paragraph 9. Administrative expenses decreased dramatically owing to scaling down the operation of the secretariat of the Commission.

11. During the biennium 2006-2007, an overpayment of $74.9 million resulting from duplicate and other claims was determined to have been made in previous

periods and was recorded as accounts receivable. This receivable was subsequently reduced to $46.5 million as of 31 December 2007 as a result of the set-offs and collection efforts, pursuant to the decisions of the Governing Council. Therefore an amount of $46.5 million is included in "other accounts receivable" in UNCC statement II of assets, liabilities and reserves and fund balances. Additional set-offs of $16.4 million are being undertaken, leaving a balance of $30.1 million. Further information is provided in note 3 (c) to the financial statements. The Governing Council decided at its sixty-fifth session in April 2008 that collection efforts in respect of the residual balance of $30.1 million should not be pursued any further. Therefore, the final disposition of the residual balance of $30.1 million will be considered further in 2008.

12. As mentioned in paragraph 8 above, the Governing Council established the Follow-up Programme for Environmental Awards at the end of 2005. The Programme commenced in 2006 and is funded through voluntary contributions by the participating Governments. Expenses during 2006-2007, the first biennium of the Programme's operation, totalled $0.9 million and are included in the summary of the Commission's expenses above.

13. Effective from the biennium 2006-2007, the Commission has reflected on its statement of assets, liabilities and reserves and fund balances the accrued liabilities for after-service health insurance of $4.4 million, for unused vacation days of $0.2 million, for repatriation benefits of $0.7 million and for termination indemnity of $0.7 million, reducing its reserves and fund balances by $6.0 million. This amount includes $0.3 million in respect of the Follow-up Programme for Environmental Awards.

# Annex

## Supplementary information

1. The present annex provides supplementary information that the Secretary-General is required to report.

## Write-off of losses of cash and receivables

2. Further to financial rule 106.8, there were no cash and receivables written off during the biennium 2006-2007.

## Write-off of losses of property

3. In accordance with financial rule 106.9, property losses amounting to $398,739 were written off during the biennium 2006-2007. The losses are based on the original cost of the properties and include write-offs arising from shortfalls, theft, damage and accidents. The write-offs bring the recorded balances of the properties to the same levels as those shown in the property records for the actual quantities on hand. A summary statement showing the inventory values of non-expendable equipment as well as property write-offs was provided to the Board in accordance with financial rule 106.9.

## Ex gratia payments

4. There were no ex gratia payments during the biennium 2006-2007.

# Chapter II
# Report of the Board of Auditors

*Summary*

The Board of Auditors has audited the financial statements of the United Nations Compensation Commission (UNCC) for the biennium ended 31 December 2007. The audit was carried out through a review of the financial transactions and operations at the Commission's headquarters in Geneva.

The Board issued a modified opinion with an emphasis of matter on the financial statements for the period under review, as reflected in chapter III.

**Follow-up of previous recommendations**

Of a total of 13 recommendations made in the audit report for the biennium ended 31 December 2005, as at 31 March 2008, 10 (77 per cent) were implemented and 3 (23 per cent) were under implementation.

**Overall financial overview**

For the period under review, total income was $3.450 billion, compared with $2.119 billion for the previous biennium, an increase of 63 per cent. Total expenditure amounted to $3.511 billion, compared with $2.134 billion for the previous biennium, an increase of 65 per cent. This resulted in a deficit of income over expenditure of $61.343 million, compared with a deficit of $15.291 million for the preceding biennium. The net surplus after adjustments from prior periods of $74.892 million and after-service health insurance was $11.967 million. Of the total expenditure of $3.511 billion, payments of awards amounted to $3.497 billion, while administrative expenditure amounted to $14 million, compared with $65 million for the previous biennium.

**Audit certificates**

In its previous report (S/2006/674), the Board recommended that UNCC liaise with countries that had not submitted audit certificates to ensure that adequate assurance exists that all compensation payments are duly received by the claimants.

UNCC wrote to the Governments and international organizations requiring them to provide the relevant certificates. As at 5 June 2008, audit certificates received covered 99.5 per cent in value of the audit certificates due by 31 March 2005, 98.3 per cent of audit certificates due by 31 March 2006, 95.5 per cent of audit certificates due by 31 March 2007 and 88.9 per cent of audit certificates due by 31 March 2008.

**Duplicate payments**

The Commission has undertaken action to recover duplicate payments. It is likely that an amount $28.9 million will not be recovered. However, no provision was made in the financial statements for non-recovery.

**Unliquidated obligations**

Unliquidated obligations as at 31 December 2007 amounted to $92.214 million, representing 2.6 per cent of total expenditure. Deferred payments related to payments to regional projects in one country alone amounted to $90.6 million, or 98 per cent of these total unliquidated obligations.

**End-of-service liabilities**

As requested by the General Assembly in its resolution 61/264, the Board has validated the after-service health insurance liabilities reflected in the financial statements. This was achieved through reliance on the external actuarial valuation and the Board's own procedures. As at 31 December 2007, after-service health insurance liabilities totalled $4.4 million and liabilities for unused vacation leave and accrued repatriation benefits totalled $1.6 million. Their disclosure has no significant impact on the financial position of UNCC, given the high level of the reserves and fund balances.

**Phasing-out strategy**

At its fifty-eighth session, held in December 2005, the UNCC Governing Council decided to complete its mission with a residual secretariat as of 1 July 2007. As for the future, the two main issues relating to the final stage of the existence of the Commission were the date of closure of the payment section and the Follow-up Programme for Environmental Awards. The Board will review the phasing-out process in its next audit cycle when additional facts and information are available.

**Recommendations**

The Board has made several recommendations based on its audit. The main recommendations are set out in paragraph 6 of the present report.

# A. Introduction

## 1. Mandate, scope and methodology

1. The Board of Auditors has audited the financial statements and reviewed the operations of the United Nations Compensation Commission (UNCC) for the period from 1 January 2006 to 31 December 2007 in accordance with General Assembly resolution 74 (I) of 7 December 1946. The audit was conducted in conformity with article VII of the Financial Regulations and Rules of the United Nations and the annex thereto, and the International Standards on Auditing. Those standards require that the Board plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement.

2. The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements fairly presented the financial position of UNCC as at 31 December 2007 and the results of its operations for the financial period then ended in accordance with the United Nations system accounting standards. It included an assessment as to whether the expenditures recorded in the financial statements had been incurred for the purposes approved by the governing bodies and whether income and expenditures had been properly classified and recorded in accordance with the Financial Regulations and Rules. The audit also included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

3. In addition to the audit of the accounts and financial transactions, the Board carried out reviews under financial regulation 7.5, which requires that it make observations with respect to the efficiency of the financial procedures, the accounting system, the internal financial controls of UNCC and, in general, the administration and management of its operations. The General Assembly also requested the Board to follow up on previous recommendations and to report on them accordingly. Those matters are addressed in paragraphs 16 to 19 below.

4. The Board periodically reported the results of audits to the Administration in the form of management letters containing detailed observations and recommendations. That practice allowed for ongoing dialogue with the executive secretariat. In that regard, one management letter was issued covering the period under review.

5. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the Security Council. The Board's observations and conclusions were discussed with the Administration, whose views have been appropriately reflected in the report.

## 2. Main recommendations

6. The Board's recommendations are that the Administration:

(a) **Continue to pursue the submission of the remaining audit certificates (para. 33);**

(b) **Make a provision to cover the risk of non-recovery of duplicate payments (para. 40);**

**(c) Reconsider the disclosure of the statement of cash flows to include its share in the United Nations Headquarters cash pool (para. 47);**

**(d) Maintain a complete and up-to-date list of non-expendable property by location and reconcile it with the physical inventory (para. 57).**

## B. Background

7. The Security Council, in its resolution 687 (1991), established the Commission to determine and resolve claims, and administer the Compensation Fund whereby such claims would be satisfied from monies provided by Iraqi oil sales. During the claims processing stage, which was completed in June 2005, the Commission consisted of three components, the Governing Council, the panels of Commissioners and the secretariat. The Governing Council (Member States' representatives in Geneva) is responsible for setting the policy regarding the Compensation Fund, the procedures applicable to claims resolution and deciding upon awards to be made. The panels of Commissioners ("experts on mission") applied the procedures and recommended awards to the Council. Finally, the secretariat assisted the panels when they were doing their work and continues to service the Council.

8. The Governing Council is composed of the same Member States as the Security Council and reports on its activities directly to that body after each session. In 1992 it adopted rules for claims procedures, in which it allowed itself to "review the amounts recommended [by the panels of Commissioners] and, where it determines circumstances require, increase or reduce them" (article 40 (I) of the Provisional Rules for Claims Procedure (S/AC.26/1992/10)).

9. The panels of Commissioners consisted of "experts on mission" in accordance with the United Nations Regulations and Rules. They were chosen for their professional qualifications, experience, integrity as well as geographical representation. As set out in article 18 of the Provisional Rules for Claims Procedure, the Secretary-General requested Member States of the United Nations to provide lists of their most respected and internationally renowned candidates. He then nominated candidates for approval by the Governing Council on the basis of recommendations from the Commission's Executive Secretary. Members of the Governing Council were permitted to consult their own national experts and to review and ask questions about the reports submitted by the panels of Commissioners.

10. As at 29 April 2008, as reflected in table II.1 below, UNCC had resolved 2,686,131 claims submitted since its inception. It had awarded compensation of $52.4 billion. Nearly 100 Governments had filed claims on behalf of their nationals, corporations and themselves. These figures have not much changed from those as at 1 May 2006 because of the deadlines established for the filing of the various categories of claims (1 January 1995 for the filing of category "A", "B", "C", "D" claims and 1 January 1996 for the filing of category "E" and "F" claims, with the exception of environmental claims in category "F", which had to be filed before 1 February 1997). As a result, UNCC received no further claims and had ceased carrying out claims appraisals.

Table II.1
**Claims awarded as at 29 April 2008**
(Thousands of United States dollars)

| *Category*[a] | *Number of claims resolved* | *Compensation sought by claims resolved* | *Number of resolved claims awarded compensation* | *Compensation awarded* | *Percentage of awarded amount against claimed amount* | *Net compensation paid* | *Unpaid balance* |
|---|---|---|---|---|---|---|---|
| A | 923 158 | 3 455 092 | 852 499 | 3 149 692 | 91.16 | 3 194 469 | (44 777)[b] |
| B | 5 734 | 20 100 | 3 935 | 13 435 | 66.84 | 13 447 | (12)[b] |
| C | 1 736 288 | 11 503 877 | 672 452 | 5 185 716 | 45.08 | 5 201 358 | (15 641)[b] |
| D | 13 864 | 16 539 501 | 10 343 | 3 348 902 | 20.25 | 3 351 370 | (2 467)[b] |
| E1 | 105 | 44 740 422 | 67 | 21 522 047 | 48.1 | 1 322 922 | 20 199 125 |
| E2 | 2 445 | 13 661 076 | 954 | 916 054 | 6.71 | 911 143 | 4 911 |
| E3 | 398 | 8 538 543 | 159 | 402 562 | 4.71 | 402 603 | (41) |
| E4 | 3 623 | 11 796 336 | 2 868 | 3 456 889 | 29.3 | 3 446 936 | 9 953 |
| E/F | 123 | 6 148 493 | 57 | 311 282 | 5.06 | 311 282 | 0 |
| F1 | 100 | 18 902 591 | 70 | 291 171 | 1.54 | 281 623 | 9 548 |
| F2 | 63 | 18 417 163 | 46 | 264 422 | 1.44 | 264 422 | 0 |
| F3 | 62 | 113 905 394 | 60 | 8 259 433 | 7.25 | 4 215 262 | 4 044 170 |
| F4 | 168 | 84 904 244 | 109 | 5 261 746 | 6.2 | 1 432 984 | 3 828 762 |
| **Total** | **2 686 131** | **352 532 838** | **1 543 619** | **52 383 356** | **14.86** | **24 349 826** | **28 033 529** |

*Source*: UNCC website.

[a] A Individuals. Programme ended in 1996 but claims processed for Bedouins, Palestinian late claims.
B Individuals, serious personal injury or whose spouse, child or parent died as a result of invasion and occupation of Kuwait. Programme ended in 1994.
C Individual claims for damages up to $100,000 each. Regular programme ended in 1999; in 2002-2003: Palestinian late claims, Bedouins programme.
D Individual claims for damages above $100,000 each. Compensation awards during the biennium.
E Corporations, other private legal entities and public sector enterprises. Compensation awards during the biennium.
E/F Mixed.
F Governments and international organizations. Compensation awards during the biennium.

[b] Reflects amounts to be returned by claimant Governments as a result of corrections to awards.

11. The Commission awards compensation regardless of the level of resources available. If a claim is approved, it is payable, however the actual payment or issuance of funds can be delayed. The financial statements disclose only the awards paid or obligated from funds already available in the Compensation Fund

12. During the biennium 2006-2007, UNCC paid $3.497 billion to the Governments of the concerned claimants and to other paying agents, a significant increase over the previous biennium, but at approximately the level of 2002-2003, as reflected in line 1 of table II.2.

Table II.2
**Awards and payments per biennium end**
(Millions of United States dollars)

| | *1996-1997* | *1998-1999* | *2000-2001* | *2002-2003* | *2004-2005* | *2006-2007* |
|---|---|---|---|---|---|---|
| 1. Compensation awards payments | 713 | 5 414 | 9 532 | 3 656 | 2 069 | 3 497 |
| 2. Approved awards not yet paid or obligated | 5 341 | 8 499 | 21 281 | 30 118 | 32 521 | 28 950 |

*Source*: UNCC.

13. As mentioned in note 3 to the financial statements, the awards approved but not yet paid or obligated amounted to $28.950 billion as at 31 December 2007, pending receipt of funds from oil proceeds further to Security Council resolution 1483 (2003). In his report to the Security Council on the creation of UNCC, the Secretary-General had anticipated that the value of claims approved by the Commission would at any given time far exceed the resources of the Commission (S/22559, para. 28).

14. Arising from a recommendation of the Board made in its report (A/57/5 (Vol. I), chap. II, para. 46), UNCC informed claimants (Governments and other paying agents) that payments depended on available funds and would be implemented only as long as Security Council resolution 687 (1991) was in force, and that Iraq, not the United Nations, was liable for any approved claim.

15. As of 1 July 2007, UNCC was reduced to a residual secretariat in accordance with the decision taken by the Governing Council at its fifty-eighth session in December 2005. As of April 2008, the UNCC secretariat has been further reduced to nine persons.

## C. Detailed findings and recommendations

### 1. Follow-up of previous recommendations

16. The Board reviewed the actions taken by UNCC to implement the recommendations made in its report for the biennium ended 31 December 2005.

17. Of the total 13 recommendations, 10 (77 per cent) were fully implemented while 3 (23 per cent) were partially implemented. These recommendations are shown in detail in the annex to the present chapter. The three recommendations under implementation related to reconciliation of non-expendable property and recovery of duplicate payments.

18. The Board evaluated the ageing of its previous recommendations that were not yet fully implemented, as requested by the Advisory Committee on the Administrative and Budgetary Questions. The aforementioned annex indicates the financial period when such recommendations were first made.

19. The three recommendations not yet fully implemented related to the biennium 2004-2005.

## 2. Overall financial overview

*Key financial indicators*

Table II.3
**Ratios of key financial indicators**

| Ratio | Year ended 31 December 2004-2005 | Year ended 31 December 2006-2007 | Component of 2007 ratio[a] |
|---|---|---|---|
| Cash/total assets[a] | 0.98 | 0.86 | 415.97/479.89 |
| Cash/liability[b] | 15.36 | 3.51 | 415.97/118.38 |
| Unliquidated obligations/total liabilities[c] | 0.53 | 0.78 | 92.21/118.38 |

*Source*: UNCC.

[a] A high indicator depicts a healthy financial position.

[b] A low indicator is a reflection that insufficient cash is available to settle debts.

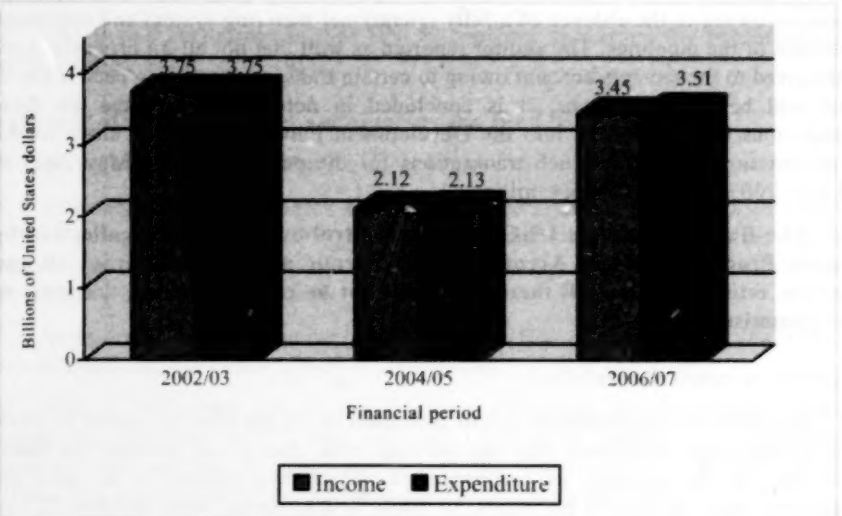
[c] A low indicator is a positive reflection that obligations are being liquidated.

20. The cash/assets ratio in table II.3 shows that in 2007, 86 per cent of UNCC assets were in the form of cash compared with 98 per cent in 2005. This is in line with the nature of UNCC given that its primary purpose is to award compensation claims. While the cash/liability indicator declined sharply from 15.36 in 2005 to 3.51 in 2007, it still remains relatively high and confirms that UNCC remains capable of meeting its recorded obligations as determined by the Security Council. The ratio of unliquidated obligations to total liabilities increased slightly from 0.53 in 2005 to 0.78 in 2007. This increase is attributable largely to delays by a single country in producing the necessary documentation required for payment of the compensation awarded under the environment fund.

## 3. Statement of income and expenditure

21. Total income for the period under review amounted to $3.450 billion, while expenditures amounted to $3.511 billion, resulting in a deficit of $61.3 million and a surplus of $11.9 million after prior-period adjustments. Of the total expenditure of $3.511 billion, payments of awards amounted to $3.497 billion, while administrative expenditure amounted to $14 million compared with $65 million for the previous biennium. Comparative income and expenditure for the financial periods 2002/03, 2004/05 and 2006/07 are shown in table II.4 below.

Table II.4
**Comparative income and expenditure**




*Source:* UNCC.

22. The increase in expenditure of $1.377 billion, or 64.5 per cent, was exclusively attributable to the payment of compensation claims. Income increased by $1.311 billion, or 63 per cent.

*Revenue not deposited into the Development Fund for Iraq*

23. Prior to the adoption of Security Council resolution 1483 (2003), the revenue derived from the oil sales authorized by the Council in its resolution 986 (1995) was deposited in the escrow account. The Council established the Development Fund for Iraq (resolution 1483 (2003)) to be held by the Central Bank of Iraq and to be audited by independent public accountants approved by the Fund's International Advisory and Monitoring Board. The Council decided that 5 per cent of the oil proceeds shall be deposited into the Compensation Fund and that, unless an internationally recognized, representative government of Iraq and the Governing Council of the United Nations Compensation Commission, in the exercise of its authority over methods of ensuring that payments are made into the Compensation Fund, decide otherwise, this requirement shall be binding on the government of Iraq.

24. In the light of the Coalition Provisional Authority in Iraq regulation No. 2 (CPA/REG/10 of 2 June 2003), the Federal Reserve Bank of New York established a Central Bank of Iraq/Development Fund for Iraq account. Pursuant to resolution 1483 (2003) and regulation No. 2, the Federal Reserve Bank was requested to open and maintain on its books an Oil Proceeds Receipts Account for the initial receipt of proceeds of all export sales of oil from Iraq and for the immediate transfer of 95 per cent of such proceeds to the Central Bank of Iraq/Development Fund for Iraq account and 5 per cent of such proceeds to the appropriate United Nations Compensation Fund account.

25. UNCC disclosed in note 3 (d) to the financial statements that the reports of the external auditor of the Development Fund for Iraq showed weaknesses in the internal control systems such that it was not possible to determine the shortfall in revenues owing to the absence of a fully operational metering system and continued sabotage of the pipelines. The auditor reported as well that not all oil proceeds were transferred to the receipts account owing to certain transactions having been made in cash and barter transactions. It is concluded in note 3 (d) that had all these transactions been deposited into the Development Fund for Iraq, the share of the Compensation Fund from such transactions for the period from 22 May 2003 to 30 June 2007 would be $116.4 million.

26. **The Board noted that UNCC had no control over the initial collection by the Oil Proceeds Receipts Account of the revenue of the sale of Iraqi oil and that the estimated shortfall therefore could not be recorded in the accounts of the Commission.**

*Payments of compensation claims*

27. Payments of compensation claims increased by 70 per cent compared to 2005. The Commission explained that the increase was due to an increase in funds available for the payment of compensation, which had enabled it to raise the maximum limit for awards payments. In 2004, in accordance with decision 227 of the Governing Council, expenditures in favour of claimants whose file had been accepted could not exceed a maximum limit of $200 million every three months. In 2006, that limit was abandoned. By its decision 253 of September 2005, the Governing Council had decided that the total balance of the Compensation Fund, excluding sums allotted to the administrative budget or to the Commission's operating reserve, would be available for the payment of compensation awards.

28. The Commission also informed the Board that payments made since 2006 to date had been in accordance with decision 256 of the Governing Council, which provided for the priority of payment to claim awards less than $500 million and to environmental claim awards. That decision further provided that the available funds should be applied to all claims until all available amounts in the Compensation Fund had been exhausted.

*Audit certificates*

29. At its forty-ninth session, held on 18 September 2003, the Governing Council decided to require audit certificates for payments made after that date. The certificates were to be issued by the officials responsible for auditing the public finances of the relevant Member States.

30. In paragraph 90 of its previous report, the Board recommended that UNCC liaise with countries that have not submitted audit certificates to ensure that adequate assurance exists that all compensation payments are duly received by the claimants.

31. The audit showed that UNCC had written to the Governments and international organizations requiring them to provide the accounting certificates which had not yet been received.

32. With respect to the level of compliance with the audit certificate requirement, the Board noted that as at 5 June 2008, audit certificates received covered 99.5 per

cent in value of the audit certificates due by 31 March 2005, 98.3 per cent of audit certificates due by 31 March 2006, 95.5 per cent of audit certificates due by 31 March 2007 and 88.9 per cent of audit certificates due by 31 March 2008.

33. **The Board recommends that UNCC continue to pursue the submission of the remaining audit certificates.**

## 4. Statement of assets, liabilities and reserves and fund balances

*Outstanding receivables and duplicate payments*

34. The outstanding receivables account increased significantly from $5.5 million in 2005 to $63.8 million in 2007. Note e to financial statement II explains that the increase was due to the recording of $46.5 million of duplicate payments that were not included in the 2005 accounts.

35. In its report for the biennium 2004-2005, the Board recommended that UNCC recover duplicate payments related to compensation awards (para. 98).

36. Note 3, paragraph (c), of the financial statements details measures taken concerning duplicates. UNCC also provided a document showing recoveries made following the sending of notes verbale to the Governments concerned or by withholding the amount of the duplicate from outstanding payments.

37. As at 31 December 2007, the "prior period adjustment" line of financial statement I indicated that the amount of overpayments recorded was $74.9 million.

38. The overpayment of $74.9 million has decreased to $46.5 million as a result of the recovery measures decided upon by the Governing Council. It is the amount disclosed in financial statement II as part of accounts receivable. Of this amount, $16.3 million is to be recovered through deduction from future payments of compensation claims. An overpayment of $30.1 million therefore will remain to be recovered, in theory, for which Member States have been declared liable for $1.2 million in "identified" duplicate payments (sixty-first session of the Governing Council, held on 31 October and 2 and 3 November 2006).

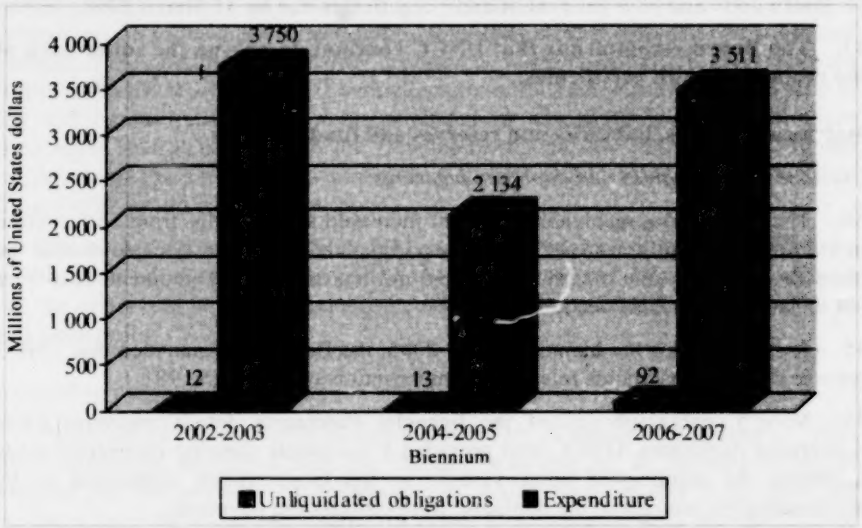
39. This analysis reveals that of $46.5 million disclosed as "accounts receivable" in the balance sheet, there is a high risk of non-recovery for $28.9 million. In the absence of any provision for this amount, the statement of assets, liabilities and reserves and fund balances, as presented in the financial statements, is overstated by $28.9 million. It should be noted that if a provision had been included for the full amount, UNCC would have recorded a net loss of $16.9 million for the biennium instead of a net profit of $11.9 million.

40. **The Board recommends that UNCC make a provision to cover the risk of non-recovery of duplicate payments.**

*Unliquidated obligations*

41. Unliquidated obligations as at 31 December 2007 amounted to $92.214 million, representing 2.6 per cent of total expenditure and an increase of $78.689 million from 2005. Table II.5 shows unliquidated obligations against total expenditure for the financial periods 2002/03, 2004/05 and 2006/07.

Table II.5
**Unliquidated obligations as against total expenditure**




*Source*: UNCC.

42. Following a significant decline during the biennium 2004-2005, UNCC expenses during the biennium 2006-2007 rose again to levels comparable with the biennium 2002-2003, recording a slight increase of 4.1 per cent from 2005 to 2007. The increase of unliquidated obligations was due mainly to compensation claims, which represented $91,531,122 or 99 per cent of total unliquidated obligations.

43. In its review of unliquidated obligations, the Board found that as at 31 December 2007, no compensation claims remained unpaid from the preceding biennium. Such claims represented 91 per cent of unliquidated obligations as at 31 December 2005. The last payments were made in November 2006. The Board reviewed a sample of 7 compensation files representing 98 per cent of total unliquidated obligations and found that they related largely to payments for environmental awards under the Follow-up Programme. Oversight of these projects was addressed by the Council in its decision 258, which established the Programme. This decision provides for the withholding of 15 per cent of environmental awards that fall within the scope of the Programme from the last payments to each Government, to be released upon satisfactory completion of the environmental projects. Where projects of long duration are being implemented in multiple phases, higher percentages can be withheld and released proportionally to the successful completion of each phase. It also provides for the submission of phasing plans for projects of long duration with awards in excess of $500 million.

44. To date, only one country has had payments withheld under decision 258 pending the submission of its phasing plans. Withheld payments for this country alone amount to $90.6 million, or 98 per cent of current total unliquidated obligations.

## 5. Statement of cash flows

45. The balance of the UNCC cash and term deposits account was $30.2 million as at the end of the biennium under review. In addition, as reported in the statement of

assets, liabilities, and reserves and fund balances as at 31 December 2007 (statement II), the UNCC cash pool balance of $382.7 million comprised the following: (a) cash and term deposits, $135.7 million; (b) short-term investments, $76.2 million; (c) long-term investments, $168.5 million; and (d) accrued interest receivable, $2.3 million.

46. In the UNCC statement of cash flows for the biennium ending 31 December 2007 (statement III), its share in the United Nations Headquarters cash pool was not considered in the determination of the cash balance as at the end of the biennium. The Board is of the view that it would be more appropriate to reflect the UNCC share in the statement of cash flows, in accordance with paragraph 5 (iii) of the United Nations system accounting standards, which states: "financial statements should disclose ... all material information which is necessary to make the statements clear and understandable".

47. **The Board recommends that UNCC reconsider the disclosure in the statement of cash flows to include the UNCC share in the United Nations Headquarters cash pool.**

## 6. End-of-service liabilities and after-service health insurance liabilities

48. Accrued liabilities represent the present value of benefits (excluding retirees' contributions) earned between the recruitment date of United Nations civil servants and the date of the actuarial evaluation. They also comprise benefits linked to the status of United Nations civil servants, which include financial compensation for unused annual leave (capped at 60 days) and end-of-service repatriation benefits.

49. As at 31 December 2007, UNCC had introduced a new liability item into its financial statements for the biennium 2006-2007, entitled "end-of-service and post-retirement liabilities", estimated to total $6 million as at 31 December 2007. As requested by the General Assembly in its resolution 61/264, the Board has validated the after-service health insurance liabilities disclosed in the financial statements. This was achieved through reliance on the 31 December external actuarial valuation and the Board's own procedures.

50. Accrued liabilities for after-service health insurance had been actuarially determined as at 31 December 2007 and stood at a net of $4.4 million. The estimation of accrued liabilities for unused annual leave and repatriation benefits and related expenses was carried out by UNCC on the basis of information available in the IMIS database and current actual data. Details are provided in table II.6.

Table II.6
**Liabilities for end-of-service benefits**
(United States dollars)

| | *After-service health insurance* | *Unused vacation days* | *Repatriation benefits* | *Termination indemnities* | *Total* |
|---|---|---|---|---|---|
| UNCC | 4 171 000 | 230 268 | 603 658 | 689 982 | **5 694 908** |
| Environmental programme | 268 000 | 5 256 | 59 514 | — | **332 770** |
| **Total** | **4 439 000** | **235 524** | **663 172** | **689 982** | **6 027 678** |

*Source*: Financial statement II of the biennium 2006-2007.

51. The difference between the 2005 and 2007 values was attributable, inter alia, to an increase in the number of individuals reported as eligible for after-service health insurance. For the 2005 valuation, UNCC had 5 retirees participating in after-service health insurance and projected that there would potentially be an additional 10 active staff who would ultimately be eligible for such insurance. The valuation for that year therefore was based on a total of 15 individuals and their families. For the 2007 valuation, UNCC had 12 retirees and 7 active staff.

## 7. Progress towards the implementation of the International Public Sector Accounting Standards

52. In accordance with General Assembly resolution 61/233 and in response to the comments of the Advisory Committee on Administrative and Budgetary Questions in its report (A/61/350), the Board decided to carry out an analysis relating to the progress of implementation of the International Public Sector Accounting Standards in United Nations bodies.

53. With a residual secretariat of nine staff members, two of whom were dedicated to payments of compensation awards as well as budgetary and financial issues, the Commission lacked the means to participate actively in the relevant working groups. Besides, the very existence of UNCC is short-term. It will follow instructions from Headquarters. Therefore, it was not preparing for the implementation of the International Public Sector Accounting Standards.

54. Reflection on the search for a new enterprise resource planning system taking into consideration the requirement of the International Public Sector Accounting Standards has little meaning for UNCC in its current phasing-out process. The last information technology engineer's contract ended on 31 March 2008 and the claims database was closed in September 2007.

## 8. Non-expendable property

55. The main findings concerning the management of non-expendable property are as follows:

(a) There has been a lack of follow-up of prior recommendations concerning the provision by the United Nations Office at Geneva and UNCC of a full list of non-expendable properties by location;

(b) There has been insufficient oversight of property management following the departure of the person responsible in July 2007;

(c) Out-of-use information technology equipment and furniture was congesting UNCC office space and making the inventory list cumbersome.

56. In this regard, a list of the out-of-use equipment currently stored in the "La Dépendance" building and the out-of-use furniture in the "La Pelouse" villa should be submitted to support services at the United Nations Office at Geneva with a view to their removal from the UNCC inventory, with the approval of the Property Survey Board.

57. **The Board reiterates its recommendation that UNCC maintain a complete and up-to-date list of non-expendable property by location and reconcile it with the physical inventory.**

58. UNCC responded that necessary action was being taken with the United Nations Office at Geneva. Hence, implementation of the recommendation was in progress.

### 9. Phasing-out strategy

59. In paragraph 184 of its 2004 report (see S/2004/789) and in paragraph 119 of its 2006 report (see S/2006/674), the Board recommended that a decision be made promptly on the strategy, phases, deadlines and modalities of the phasing-out of UNCC. At the fifty-eighth session of the Governing Council, held from 6 to 8 December 2005, the working group responsible for agenda item 11 considered the three options submitted by the secretariat. It advised the Council to adopt the option recommending the maintenance of UNCC with residual human resources in order to complete the payment of all individual awards and certain residual activities and provide secretarial support to the Council.

60. The Board noted that the working group's proposal had been adopted by the Council.

61. At the time of the audit (April 2008), the secretariat continued the management and safe disposal of archives in accordance with the policy adopted by the Governing Council. In that respect, the secretariat made progress in archiving its records and in the course of 2008, the registry will cease to exist.

62. Only 27 compensation claims remained to be paid at the time of reporting. The payment of awards to individuals and companies had already been completed.

63. As for the future, the two main issues relating to the final stage of the life of the Commission were the date of closure of the payment section and the Follow-up Programme for Environmental Awards. The first issue depended on the outcome of negotiations between Iraq and Kuwait with respect to outstanding claim awards which were scheduled to take place soon under the auspices of the secretariat. As to the second issue, the duration of the Follow-up Programme depended on the duration of the projects that it was monitoring, with the potential for some projects to require monitoring for up to 15 years.

64. The Board will review the phasing-out process in its next audit cycle when additional facts and information are available.

### 10. Internal audit

65. During the biennium 2006-2007, the Office of Internal Oversight Services (OIOS) conducted two audits of the UNCC headquarters in Geneva and issued two reports.

66. One report, dated 11 June 2007, related to financial monitoring. Recommendations mainly addressed expenditure and apportionment of support costs to the relevant budget line. The other report, dated 19 June 2007, was related to the claims payments. Given the imminent phasing-out of UNCC, OIOS focused on the accounts payable balances.

67. There were differences of opinion between UNCC and OIOS about resources required for financing internal audit functions. According to UNCC, the phasing-out and the drastic cuts in human resources should be accompanied by a decrease of the charges of internal audit. The Governing Council of the United Nations

Compensation Commission decided to reduce the funds for the OIOS reports services in 2007 in line with the reduced activities. Considering that more than $30 billion in unpaid awards remained, it was the opinion of OIOS that this decision had exposed the Commission to a high level of risk (see A/62/281).

### 11. Write-offs and disposals

68. In accordance with financial rule 106.8 (a), UNCC informed the Board that a total of $398,739 of assets had been written off during the biennium ended 31 December 2007. This amount related to equipment that had been approved for removal from the inventory by the Property Survey Board. It consisted of $215,888 in obsolete equipment that was written off in 2006 and $182,851 that was written off owing to damage or destruction in 2007.

### 12. Ex gratia payments

69. As required by biennial rule 105.12, UNCC reported no ex gratia payments during the biennium ended 31 December 2007.

### 13. Cases of fraud and presumptive fraud

70. In accordance with the additional terms of reference governing the audit of the United Nations (ST/SGB/2003/7, para. 6 (c) (i)), the Administration reported no cases of fraud or presumptive fraud to the Board for the biennium ended 31 December 2007.

## D. Acknowledgement

71. The Board of Auditors wishes to express its appreciation for the cooperation and assistance extended to its audit teams by the Executive Secretary and staff of UNCC.

(*Signed*) Philippe **Séguin**
First President of the Court of Accounts of France
(Chairman of the United Nations Board of Auditors)
(Lead Auditor)

(*Signed*) Reynaldo A. **Villar**
Chairman, Philippine Commission on Audit

(*Signed*) Terence **Nombembe**
Auditor-General of the Republic of South Africa

30 June 2008

# Annex

## Analysis of the status of implementation of the recommendations of the Board of Auditors for the biennium ended 31 December 2005

| *Recommendation* | *Corresponding paragraphs in S/2006/674* | *Biennium first reported* | *Fully implemented* | *Partially implemented* | *Not implemented* |
|---|---|---|---|---|---|
| 1. The United Nations Treasury should consider the possibility of using international currency hedging best practices to cover foreign expenses for operational costs. | Para. 36 | 2004-2005 | X | | |
| 2. The United Nations Secretariat agreed with the Board's recommendation to disclose its changes in accounting policies and modify its financial statements accordingly. | Para. 39 | 2004-2005 | X | | |
| 3. The United Nations Office at Geneva should provide detailed explanations on the reasonability of the rental charges of occupied premises to UNCC. | Para. 43 | 2004-2005 | X | | |
| 4. The United Nations Office at Geneva and UNCC should provide an appropriate list of non-expendable property by location and reconcile the non-expendable property list with the physical inventory. | Para. 48 | 2004-2005 | | X | |
| 5. UNCC should ensure that all non-expendable property is properly recorded in the inventory list. | Para. 51 | 2004-2005 | | X | |
| 6. UNCC should pursue its efforts to recover long-outstanding receivables. | Para. 55 | 2004-2005 | X | | |
| 7. UNCC should withhold the release of funds to the recipient country pending compliance with the reporting deadline set by decision 18 of the UNCC Governing Council. | Para. 79 | 2004-2005 | X | | |
| 8. UNCC should ensure that information on payments made to persons other than the claimants are disclosed properly. | Para. 83 | 2004-2005 | X | | |
| 9. UNCC should liaise with countries that have not submitted audit certificates to ensure that adequate assurance exists that all compensation payments are duly received by the claimants. | Para. 90 | 2000-2001 | X | | |
| 10. UNCC should recover duplicate payments related to compensation awards. | Para. 98 | 2004-2005 | | X | |
| 11. The United Nations Secretariat should commission a "compensation lessons-learned" exercise. | Para. 113 | 2004-2005 | X | | |
| 12. UNCC should continue to take all appropriate measures to ensure the safety and security of its archives until its completion. | Para. 116 | 2000-2001 | X | | |

| *Recommendation* | *Corresponding paragraphs in S/2006/674* | *Biennium first reported* | *Fully implemented* | *Partially implemented* | *Not implemented* |
|---|---|---|---|---|---|
| 13. The Board reiterates its recommendations that the United Nations decide upon a completion strategy. | Para. 119 | 2002-2003 | X | | |
| **Total** | **13** | | **10** | **3** | **0** |
| **Percentage** | **100** | | **77** | **23** | **0** |

# Chapter III
## Audit opinion

We have examined the financial statements of the United Nations Compensation Commission comprising statements I to III and the supporting notes for the biennium ended 31 December 2007. These financial statements are the responsibility of the Secretary-General of the United Nations. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by the Secretary-General, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for the audit opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the United Nations Compensation Commission as at 31 December 2007 and the results of its operations and its cash flows for the period then ended, in accordance with the United Nations system accounting standards.

Without qualifying our opinion above, we draw attention to the following matter.

An amount of $63.8 million has been recorded as assets in the entry "other accounts receivable" in the financial statements. Included in this amount are duplicate payments of $46.5 million to be reimbursed to the United Nations Compensation Commission, of which $29 million were unlikely to be recovered as at 31 December 2007. The Board is of the view that in the absence of a provision, the amount shown as receivable is overstated. The process of identification and recovery of duplicate and other claims is explained more fully in note 3 (c) to the financial statements.

Furthermore, in our opinion, the transactions of the United Nations Compensation Commission that have come to our notice, or which we have tested as part of our audit, have in all significant respects been in accordance with the Financial Regulations and Rules of the United Nations and legislative authority.

In accordance with article VII of the Financial Regulations and Rules of the United Nations, we have also issued a long-form report on our audit of the United Nations Compensation Commission.

(*Signed*) Philippe **Séguin**
First President of the Court of Accounts of France
(Lead Auditor)

(*Signed*) Reynaldo A. **Villar**
Chairman, Philippine Commission on Audit

(*Signed*) Terence **Nombembe**
Auditor-General of the Republic of South Africa

30 June 2008

# Chapter IV
## Certification of the financial statements

The financial statements of the United Nations Compensation Commission established pursuant to Security Council resolution 692 (1991) for the biennium 2006-2007 ending 31 December 2007 have been prepared in accordance with financial rule 106.10.

The summary of significant accounting policies applied in the preparation of these statements is included as notes to the financial statements. These notes provide additional information and clarifications for the financial activities undertaken by the Commission during the period covered by these statements, for which the Secretary-General has administrative responsibility.

I certify that the appended financial statements of the United Nations Compensation Commission, numbered I to III, are correct.

(*Signed*) Warren **Sach**
Assistant Secretary-General, Controller

28 March 2008

# Chapter V

## Financial statements for the biennium ended 31 December 2007

Statement I

# United Nations Compensation Commission[a]

## Income and expenditure and changes in reserves and fund balances for the biennium 2006-2007 ending 31 December 2007

(Thousands of United States dollars)

| | *UNCC* | *UNCC support for Follow-up Programme for Environmental Awards*[b] | *Total 2007* | *Total 2005*[c] |
|---|---|---|---|---|
| **Income** | | | | |
| Allocations from other organizations[d] | 3 378 648 | — | 3 378 648 | 2 021 299 |
| Transfers from operating reserves[e] | 15 205 | — | 15 205 | 64 189 |
| Contributions from claimant governments | — | 1 430 | 1 430 | — |
| Interest income | 43 717 | 116 | 43 833 | 19 123 |
| Other/miscellaneous income | 11 395[f] | 18 | 11 413 | 14 507 |
| **Total income** | **3 448 965** | **1 564** | **3 450 529** | **2 119 118** |
| **Expenditure** | | | | |
| Staff and other personnel costs | 11 203 | 753 | 11 956 | 51 309 |
| Travel | 72 | 17 | 89 | 268 |
| Contractual services | 466 | — | 466 | 600 |
| Operating expenses | 2 097 | 92 | 2 189 | 6 605 |
| Acquisitions | 12 | — | 12 | 63 |
| Other | — | — | — | 6 631 |
| Compensation awards | 3 497 160 | — | 3 497 160 | 2 068 933 |
| **Total expenditure** | **3 511 010** | **862** | **3 511 872** | **2 134 409** |
| **Excess (shortfall) of income over expenditure** | **(62 045)** | **702** | **(61 343)** | **(15 291)** |
| Non-budgeted accrued expense for after-service health insurance[g] | (1 314) | (268) | (1 582) | — |
| Prior-period adjustment[h] | 74 892 | — | 74 892 | — |
| **Net excess (shortfall) of income over expenditure** | **11 533** | **434** | **11 967** | **(15 291)** |
| Savings on or cancellation of prior period obligations | 892 | — | 892 | 3 243 |
| Other adjustments to reserve and fund balances | (7 562) | — | (7 562) | — |

| | UNCC | UNCC support for Follow-up Programme for Environmental Awards[b] | Total 2007 | Total 2005[c] |
|---|---|---|---|---|
| Transfer from operating reserves[e] | (15 205) | — | (15 205) | (64 189) |
| Reserves and fund balances, beginning of period | 371 419 | — | 371 419 | 447 656 |
| **Reserves and fund balances, end of period** | **361 077** | **434** | **361 511** | **371 419** |

[a] See note 1.
[b] See note 4.
[c] Comparative figures have been reclassified to conform to current presentation.
[d] Represents 5 per cent of the proceeds from Iraqi oil sales deposited into the Development Fund for Iraq in accordance with Security Council resolution 1483 (2003). See note 1 (c).
[e] Pursuant to authorizations by the Governing Council, a total amount of $15,205,700 was transferred in 2006 and 2007 from operating reserves to finance the Commission's 2006-2007 operating budget.
[f] Includes funds of $10,402,000 returned by Governments in respect of claimants that could not be located. See note 2 (m) (v).
[g] Represents net increase in after-service health insurance liabilities during the biennium 2006-2007.
[h] Represents amounts for duplicate and other claims, which had been charged to previous financial periods, and in respect of which recovery actions are being taken. See note 3 (c).
[i] Represents accrued liabilities as of 31 December 2005 for after-service health insurance costs of $2,857,000, for unused vacation days of $674,661, for repatriation benefits of $1,363,664 and for termination indemnity of $2,666,322. These were previously disclosed in the notes and are now reflected in the financial statements as liabilities. See note 2 (m) (vi) and note 5.

The accompanying notes are an integral part of the financial statements.

# United Nations Compensation Commission[a]

## Assets, liabilities and reserves and fund balances as at 31 December 2007

(Thousands of United States dollars)

| | *UNCC* | *UNCC support for Follow-up Programme for Environmental Awards*[b] | *Total 2007* | *Total 2005* |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and term deposits | 30 283 | — | 30 283 | 8 312 |
| Cash pool[c] | 382 705 | — | 382 705 | 382 933 |
| Offices away from Headquarters cash pool[d] | — | 2 988 | 2 988 | — |
| Inter-fund balances receivable | 26 | — | 26 | — |
| Other accounts receivable[e] | 63 790 | 49 | 63 839 | 5 570 |
| Deferred charges | 20 | 35 | 55 | 71 |
| **Total assets** | **476 824** | **3 072** | **479 896** | **396 886** |
| **Liabilities** | | | | |
| Unliquidated obligations - current period | 92 153 | 61 | 92 214 | 13 525 |
| Inter-fund balances payable | — | 37 | 37 | 2 786 |
| Other accounts payable[f] | 17 899 | — | 17 899 | 9 156 |
| Deferred Income | — | 2 207 | 2 207 | — |
| End-of-service and post-retirement liabilities | 5 695[g] | 333[h] | 6 028 | — |
| **Total liabilities** | **115 747** | **2 638** | **118 385** | **25 467** |
| **Reserves and fund balances** | | | | |
| Operating reserve | 55 605[i] | 434[j] | 56 039 | 70 810 |
| Cumulative surplus | 305 472 | — | 305 472 | 300 609 |
| **Total reserves and fund balances** | **361 077** | **434** | **361 511** | **371 419** |
| **Total liabilities and reserves and fund balances** | **476 824** | **3 072** | **479 896** | **396 886** |

[a] See note 1.
[b] See note 4.

[c] Represents share of the United Nations Headquarters cash pool and comprises cash and term deposits of $135,732,959, short-term investments of $76,195,285 (market value $76,234,684), long-term investments of $168,511,997 (market value $169,027,244) and accrued interest receivable of $2,265,071.

[d] Represents share of the United Nations offices away from Headquarters cash pools and comprises cash and term deposits of $1,624,503, short-term investments of $827,027 (market value $827,170), long-term investments of $524,519 (market value $524,140) and accrued interest receivable of $12,175.

[e] Includes $17,294,190 advanced to Governments for further distribution to claimants in respect of various compensation awards for which the submission of the distribution reports is pending, and $46,463,685 due from claimants for duplicate and other claims.

[f] Includes $17,294,190 advanced to Governments for further distribution to claimants in respect of various compensation awards for which the submission of the distribution reports is pending.

[g] Represents accrued liabilities for after-service health insurance costs of $4,171,000, for unused vacation days of $230,268, for repatriation benefits of $603,658 and for termination indemnity of $689,982. These were previously disclosed in the notes and are now reflected in the financial statements as liabilities. See note 2 (m) (vi) and note 5.

[h] Represents accrued liabilities for after-service health insurance costs of $268,000, for unused vacation days of $5,256 and for repatriation benefits of $59,514.

[i] Pursuant to authorizations by the Governing Council, a total amount of $15,205,700 was transferred in 2006 and 2007 from operating reserve to finance the Commission's 2006-2007 operating budget, resulting in an operating reserve balance of $55,604,700 as of 31 December 2007.

[j] With the agreement of the claimant Governments and as noted by the Governing Council, the surplus arising in the biennium 2006-2007 has been transferred to operating reserves to be retained for contingencies.

The accompanying notes are an integral part of the financial statements.

# United Nations Compensation Commission[a]

## Cash flows for the biennium 2006-2007 ending 31 December 2007

(Thousands of United States dollars)

| | UNCC | UNCC support for Follow-up Programme for Environmental Awards[b] | Total 2007 | Total 2005[c] |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| Net excess (shortfall) of income over expenditure (statement I) | 11 533 | 434 | 11 967 | (15 291) |
| (Increase) decrease in inter-fund balances receivable | (26) | — | (26) | — |
| (Increase) decrease in other accounts receivable | (58 220) | (49) | (58 269) | 2 969 |
| (Increase) decrease in deferred charges | 51 | (35) | 16 | 1 070 |
| Increase (decrease) in unliquidated obligations | 78 628 | 61 | 78 689 | 423 |
| Increase (decrease) in inter-fund balances payable | (2 786) | 37 | (2 749) | (9 557) |
| Increase (decrease) in other accounts payable | 8 743 | — | 8 743 | (3 006) |
| Increase (decrease) in deferred income | — | 2 207 | 2 207 | — |
| Increase (decrease) in end-of-service and post-retirement liabilities | 5 695 | 333 | 6 028 | — |
| Less: interest income | (43 717) | (116) | (43 833) | (19 123) |
| **Net cash flows from operating activities** | **(99)** | **2 872** | **2 773** | **(42 515)** |
| **Cash flows from investing activities** | | | | |
| (Increase) decrease in cash pool | 228 | (2 988) | (2 760) | 85 265 |
| Plus: interest income | 43 717 | 116 | 43 833 | 19 123 |
| **Net cash flows from investing activities** | **43 945** | **(2 872)** | **41 073** | **104 388** |
| **Cash flows from financing activities** | | | | |
| Savings on or cancellation of prior-period obligations | 892 | — | 892 | 3 243 |
| Other adjustments to reserves and fund balances | (7 562) | — | (7 562) | — |
| Transfer from operating reserves | (15 205) | — | (15 205) | (64 189) |
| **Net cash flows from financing activities** | **(21 875)** | **—** | **(21 875)** | **(60 946)** |

| | UNCC | UNCC support for Follow-up Programme for Environmental Awards[b] | Total 2007 | Total 2005[c] |
|---|---|---|---|---|
| **Net increase (decrease) in cash and term deposits** | **21 971** | **—** | **21 971** | **927** |
| Cash and term deposits, beginning of period | 8 312 | — | 8 312 | 7 385 |
| **Cash and term deposits, end of period[d]** | **30 283** | **—** | **30 283** | **8 312** |

[a] See note 1.
[b] See note 4.
[c] Comparative figures have been reclassified to conform to current presentation.
[d] Cash and term deposits does not include cash and term deposits in the cash pool. Refer to footnotes c and d in statement II.

The accompanying notes are an integral part of the financial statements.

# Notes to the financial statements

**Note 1**
**The United Nations Compensation Commission**

(a) The United Nations Compensation Commission (the Commission) was established in 1991 in accordance with Security Council resolution 692 (1991) subsequent to Security Council resolution 687 (1991), to process and pay claims for direct loss, damage, or injury arising from Iraq's invasion and occupation of Kuwait;

(b) By its resolution 705 (1991), the Security Council adopted the Secretary-General's suggestion that the level of Iraq's contribution to the Compensation Fund shall not exceed 30 per cent of the annual value of its exports of petroleum and petroleum products. By its resolution 986 (1995), the Council approved the allocation of 30 per cent of the proceeds from the sale of Iraqi oil to the Compensation Fund. Pursuant to Council resolution 1330 (2000), the allocation to the Compensation Fund was decreased from 30 per cent to 25 per cent effective 6 December 2000;

(c) By its resolution 1483 (2003), the Security Council reduced the level of Iraq's contribution to the Compensation Fund, effective 22 May 2003, to 5 per cent, and decided that it will remain at that level until such time as an internationally recognized, representative government of Iraq and the UNCC Governing Council decide otherwise.

**Note 2**
**Summary of significant accounting and financial reporting policies of the United Nations Compensation Commission**

(a) The accounts of the United Nations Compensation Commission are maintained in accordance with the Financial Regulations of the United Nations as adopted by the General Assembly, the rules formulated by the Secretary-General as required under the regulations and administrative instructions issued by the Under-Secretary-General for Management, or the Controller. They also take fully into account the United Nations system accounting standards, as adopted by the United Nations System Chief Executives Board for Coordination (CEB). The Commission follows International Accounting Standard 1 — Presentation of Financial Statements, on the disclosure of accounting policies, as modified and adopted by CEB as shown below:

(i) Going concern, consistency and accrual are fundamental accounting assumptions. Where fundamental accounting assumptions are followed in financial statements, disclosure of such assumptions is not required. If a fundamental accounting assumption is not followed, that fact should be disclosed together with the reasons therefore;

(ii) Prudence, substance over form and materiality should govern the selection and application of accounting policies;

(iii) Financial statements should include clear and concise disclosure of all significant accounting policies that have been used;

(iv) The disclosure of the significant accounting policies used should be an integral part of the financial statements. These policies should normally be disclosed in one place;

(v) Financial statements should show comparative figures for the corresponding period of the preceding financial period;

(vi) A change in an accounting policy that has a material effect in the current period or may have a material effect in subsequent periods should be disclosed together with the reasons. The effect of the change should, if material, be disclosed and quantified;

(b) The Commission's accounts are maintained on a "fund accounting" basis. Each fund is maintained as a distinct financial and accounting entity with a separate self-balancing, double-entry group of accounts. Financial statements reflect activities of each fund or of a group of funds of the same nature;

(c) The financial period of the Commission is a biennium and consists of two consecutive calendar years;

(d) Generally, income, expenditure, assets and liabilities are recognized on the accrual basis of accounting;

(e) The accounts of the Commission are presented in United States dollars. Accounts maintained in other currencies are translated into United States dollars at the time of the transactions at rates of exchange established by the United Nations. In respect of such currencies, the financial statements reflect the cash, investments and current accounts receivable and payable in currencies other than United States dollars, translated at the applicable United Nations rates of exchange in effect as at the date of the statements. In the event that the application of actual exchange rates at the date of the statements would provide a valuation materially different from the application of the United Nations rates of exchange for the last month of the financial period, a footnote will be provided quantifying the difference;

(f) The Commission's financial statements are prepared on the historical cost basis of accounting and are not adjusted to reflect the effects of changing prices for goods and services;

(g) The cash flow summary statement is based on the "indirect method" of cash flow as referred to in the United Nations system accounting standards;

(h) The Commission's financial statements are presented in accordance with the ongoing recommendations of the Task Force on Accounting Standards to the High-level Committee on Management;

(i) The results of the Commission's operations presented in statements I, II and III are shown by general type of activity as well as on a combined basis for all funds. Their presentation on a combined basis does not imply that the various separate funds can be intermingled in any way, since, normally, resources may not be utilized between funds;

(j) Income:

(i) Allocations from other funds represent monies appropriated or designated from one fund for the transfer to and disbursement from another fund;

(ii) Income received under inter-organization arrangements represents allocations of funding from agencies to enable the Commission to administer projects or other programmes on their behalf;

(iii) Interest income includes all interest earned on deposits in various bank accounts and investment income earned in the United Nations cash pool. All realized losses and net unrealized losses on short-term investments are offset against investment income. Investment income and costs associated with operation of investments in the cash pool are allocated to the Commission;

(iv) Miscellaneous income includes amounts returned by Governments in respect of claimants that could not be located (see note 2 (m) (v)), income from the sale of used or surplus property, refunds of expenditures charged to prior periods, income from net gains resulting from currency translations, settlements of insurance claims, monies accepted for which no purpose was specified and other sundry income;

(v) Income for future financial periods is not recognized in the current financial period and is recorded as deferred income, as referred to in note 2 (m) (iii);

(k) Expenditures:

(i) Expenditures are incurred against authorized allotments. Total expenditures reported include unliquidated obligations and disbursements;

(ii) Expenditures incurred for non-expendable property are charged to the budget of the period when acquired and are not capitalized. Inventory of such non-expendable property is maintained at historical cost;

(iii) Expenditures for future financial periods are not charged to the current financial period and are recorded as deferred charges, as referred to in note 2 (l) (v);

(l) Assets:

(i) Cash and term deposits represent funds held in demand deposit accounts and interest-bearing bank deposits;

(ii) The cash pool comprises the Commission's share of cash and term deposits, short-term and long-term investments and accrual of investment income, all of which are managed in the United Nations cash pool. Investments in the cash pool are similar in nature. Short-term investments are stated at lower of cost and market value; long-term investments are stated at cost. Cost is defined as the nominal value plus or minus any unamortized premium or discount. The market value of investments is disclosed in the footnotes to the financial statements;

(iii) Inter-fund balances reflect transactions between funds and are included in the amounts due to and from the United Nations General Fund. Inter-fund balances also reflect transactions directly with the United Nations General Fund. Inter-fund balances are settled periodically, dependent upon availability of cash resources;

(iv) Provision for delays in collection of receivable balances is not made;

(v) Deferred charges normally comprise expenditure items that are not properly chargeable to the current financial period. They will be charged as

expenditure in a subsequent period. These expenditure items include commitments approved by the Controller for future financial periods in accordance with financial rule 106.7. Such commitments are normally restricted to administrative requirements of a continuing nature and to contracts or legal obligations where long lead times are required for delivery;

(vi) For purposes of the balance sheet statements only, those portions of education grant advances that are assumed to pertain to the scholastic years completed as at the date of the financial statement are shown as deferred charges. The full amounts of the advances are maintained as accounts receivable from staff members until the required proofs of entitlement are produced, at which time the budgetary accounts are charged and the advances settled;

(vii) Maintenance and repairs of capital assets are charged against the appropriate budgetary accounts. Furniture, equipment, other non-expendable property and leasehold improvements are not included in the assets of the Commission. Such acquisitions are charged against budgetary accounts in the year of purchase. The value of non-expendable property is disclosed in notes to the financial statements;

(m) Liabilities and reserves and fund balances:

(i) Operating reserves are included in the totals for "Reserves and fund balances" shown in the financial statements;

(ii) Unliquidated obligations for future years are reported both as deferred charges and as unliquidated obligations;

(iii) Deferred income includes income received but not yet earned;

(iv) Current period obligations remain valid for 12 months following the end of the biennium to which they relate, after which the remaining balances are cancelled and returned to the Compensation Fund as savings on, or cancellation of, prior period obligations;

(v) Other accounts payable includes funds returned by Governments in respect of claimants that could not be located, for a period of up to 24 months from the date of the initial payment, after which the balances in other accounts payable are cancelled. Amounts cancelled are returned to the Compensation Fund and are included in miscellaneous income;

(vi) Accrued liabilities for end-of-service and posted-retirement benefits, comprising those for after-service health insurance, unused vacation days, repatriation benefits and termination indemnity, which were previously disclosed in the notes to the financial statements, are, effective 1 January 2006, included as liabilities in the statement of assets, liabilities and reserves and fund balances. The change in policy is made in order to recognize such liabilities when incurred and is in accordance with General Assembly resolution 60/255 of 8 May 2006 with respect to recognition of after-service health insurance liabilities. The liabilities accruing during the current financial period for unused vacation days, repatriation benefits and termination indemnity are charged to expenditure and are included in the "Staff and other personnel costs" line in statement I. The net change in accrued after-service health insurance liabilities during the financial period is shown in a separate

line in statement I as "Non-budgeted accrued expense for after-service health insurance" (see note 5);

(vii) Contingent liabilities, if any, are disclosed in the notes to the financial statements;

(viii) The United Nations is a member organization participating in the United Nations Joint Staff Pension Fund (UNJSPF), which was established by the General Assembly to provide retirement, death, disability and related benefits. UNJSPF is a funded defined benefit plan. The financial obligation of the Commission to UNJSPF consists of its mandated contribution at the rate established by the Assembly together with its share of any actuarial deficiency payments under article 26 of the Regulations of UNJSPF. Such deficiency payments are payable only if and when the Assembly has invoked the provision of article 26, following determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of UNJSPF as of the valuation date. As at the date of the current financial statement, the General Assembly has not invoked this provision.

**Note 3**
**Statements I, II and III**

(a) Compensation claims

As of 31 December 2007, compensation awards of $28,950,563,520 have been approved by the Governing Council of the Commission but not yet paid or obligated pending receipt of funds from the sales of oil proceeds further to Security Council resolution 1483 (2003);

(b) Awards of interest

With respect to awards of interest, the Governing Council of the Commission decided, in its decision 16 in 1992, that interest would be awarded from the date the loss occurred until the date of payment, at a rate sufficient to compensate successful claimants for the loss of use of the principal amount of the award; that the methods of calculation and of payment of interest would be considered by the Governing Council at the appropriate time; and that interest would be paid after the principal amount of awards. In this respect, the Governing Council, at its meeting on 10 March 2005, took a final decision concerning the payment of interest on awards of compensation. Governing Council decision 243 provides that the Council will take no further action with respect to the issue of awards of interest, which effectively means that no payments of interest shall be made on awards of compensation. This decision of the Governing Council has been communicated to all claimant Governments;

(c) Duplicate and other claims

(i) During the biennium 2006-2007, the UNCC secretariat determined through its investigations that duplicate and other claims amounted to $74,891,642, which have been recorded as a prior-period adjustment in statement I. In this context, the Governing Council decided at its fifty-ninth session, held in March 2006, that confirmed overpayments identified as a

result of the investigation would be corrected under article 41 of the Provisional Rules for Claims Procedure;

(ii) At its sixtieth session, in June 2006, the Governing Council decided that Governments and other submitting entities would be requested to take all practicable steps ("best efforts") to attempt to recover overpaid amounts from claimants and to remit the received funds to UNCC within certain deadlines;

(iii) At its sixty-first session, held on 31 October and 2 and 3 November 2006, the Governing Council decided that Governments and other submitting entities would be responsible for the amount to be recovered that was "identifiable" (i.e., that could reasonably have been detected prior to or at the time of payment) but not the amount that was "non-identifiable" (i.e., that would have been difficult if not impossible for submitting entities to detect). It was also decided that all "identifiable" overpayment not recovered would be set off against the final payment made to a Government in respect of a governmental or quasi-governmental award;

(iv) At its sixty-second session, held from 20 to 22 February 2007, the UNCC secretariat reported its findings on duplicate and other claims to the Governing Council, which approved corrections to nearly 30,000 claims in four article 41 reports. Furthermore, the Governing Council took note of the report by the UNCC secretariat on the "best efforts" responses received from claimant Governments to date;

(v) At the sixty-third session, held from 20 to 22 June 2007, the Working Group of the Governing Council received and considered the final results of the "best efforts" following expiry of the set deadlines. In the light of efforts made by the submitting entities and the amounts recovered through the "best efforts" exercise, the Working Group noted that continuing "best efforts" would result in only limited recoveries. The Working Group recommended that submitting entities be requested to remit any further funds they receive from claimants and that the UNCC secretariat report on further recoveries at future sessions of the Governing Council;

(vi) As a result of recoveries and offsets, the balance outstanding in respect of duplicate and other claims as of 31 December 2007 had been reduced to $46,463,685. A further $16,290,976 is expected to be offset against unpaid awards. The UNCC secretariat intends to raise the issue of the final disposition of the remaining receivable balances for decision by the Governing Council;

(d) Sale of Iraqi oil: cash and barter transactions

(i) Further to Security Council resolution 1483 (2003), effective 22 May 2003, 5 per cent of all proceeds from export sales of Iraqi oil are to be transferred to the Compensation Fund. In accordance with the resolution, an independent firm of public accountants was appointed by the International Advisory and Monitoring Board to report on all export sales of petroleum, petroleum products and natural gas from Iraq. The reports showed weaknesses in the internal control systems such that it was not possible to determine the shortfall in revenues owing to the absence of a fully operational metering system and continued sabotage of the pipelines. In addition, the reports for the periods from 1 January 2005 to 30 June 2005, from 1 July 2005 to 31 December 2005 and for the year ended 31 December 2006, together with

the latest available report for the period from 1 January 2007 to 30 June 2007, identified shortfalls in revenues of the Development Fund for Iraq owing to certain transactions having been made in cash and barter transactions not having been deposited into the Oil Proceeds Receipts Account. Had all these proceeds been deposited into that account, the share of the Compensation Fund from such transactions for the period from 22 May 2003 to 30 June 2007 would be $116.4 million. In its report for the year ended 31 December 2006, the independent firm also noted that other matters might have come to its attention had it performed additional procedures or undertaken an audit or a review engagement;

(ii) The Governing Council of the Compensation Commission is provided with an update on this matter regularly, with the most recent update at its sixty-fifth session, in October 2007. The Governing Council requested, inter alia, that the Executive Secretary continue to follow up on this issue with the Controller, to monitor the audits of the Development Fund for Iraq and to keep the Council advised of any new developments. This matter has been brought to the attention of the Government of Iraq and upon satisfactory resolution of this matter, revenue due to the Commission shall be recorded in the accounts of the Compensation Fund.

**Note 4**
**United Nations Compensation Commission support for the Follow-up Programme for Environmental Awards**

The Governing Council created the Follow-up Programme for Environmental Awards through its decision 258 in December 2005, in consultation with the Government of Iraq and the participating Governments of the Islamic Republic of Iran, Jordan, Kuwait and Saudi Arabia ("claimant Governments"), as a mechanism for monitoring the financial and technical aspects of various environmental projects being undertaken by the claimant Governments with funds awarded by the Commission. The Programme is financed by the claimant Governments through deductions from their respective shares of specified awards.

**Note 5**
**Accrued liabilities for end-of-service and post-retirement benefits**

(a) Upon end-of-service, eligible staff members are entitled to after-service health insurance coverage, to be paid for any unused vacation days up to a maximum of 60 days and to repatriation benefits and termination indemnity based on the number of years of service. Effective 1 January 2006, all four types of liabilities are recognized in the financial accounts. The liabilities as of 31 December 2005 have been recorded through an adjustment to reserves and fund balances, as shown in statement I. Previously, these liabilities were disclosed in the notes to the financial statements;

(b) In order to gain a better understanding of the financial dimensions of the Commission's liabilities for after-service health insurance, which is a defined benefit plan, a consulting actuary was engaged to carry out an actuarial valuation of after-service health insurance benefits. The major assumptions used by the actuary were a discount rate of 5.5 per cent; health-care escalation rates of 9.5 per cent in 2008, grading down to 5.0 per cent in 2015 and later years for United States medical

plans, and 5.7 per cent in 2008, grading down to 4.5 per cent in 2012 and later years for medical plans outside the United States; and retirement, withdrawal and mortality assumptions consistent with those used by UNJSPF in making its own actuarial valuation. On the basis of these assumptions, it is estimated that the Commission's liability as at 31 December 2007 for after-service health insurance benefits is as follows.

(Thousands of United States dollars)

| *After-service health insurance* | *Present value of future benefits* | *Accrued liability* |
|---|---|---|
| Gross liability | 6 143 | 5 920 |
| Offset from retiree contributions | (1 536) | (1 481) |
| **Net liability** | **4 607** | **4 439** |

(c) The figures shown above for the present value of future benefits are the discounted values of all benefits to be paid in future to all current retirees and active employees expected to retire. The accrued liability represents those portions of the present value of benefits that have accrued from the staff members' dates of entry on duty until the valuation date. Active staff members' benefits are fully accrued on the date on which they become fully eligible for benefits;

(d) The Commission's total liability for unused vacation days, repatriation benefits and termination indemnities has been recorded as of 31 December 2007 and is estimated to be $235,524, $663,172 and $689,982, respectively. The liabilities accruing during the biennium 2006-2007 for unused vacation days, accrued repatriation benefits and termination indemnity that were charged to expenditure were $64,309, $355,814 and $176,931, respectively.

**Note 6**
**Non-expendable property**

In accordance with United Nations accounting policies, non-expendable property is not included in the fixed assets of the Commission, but is charged against the current allotment in the year of purchase. The Commission's non-expendable property, valued at historical cost as at 31 December 2007 is as follows.

*(United States dollars)*

| | |
|---|---|
| Balance at 1 January 2006 | 1 418 675 |
| Add: acquisitions | 3 160 |
| Less: write-offs (damages) | (398 739) |
| Less: dispositions | (38 184) |
| Other adjustments[a] | 7 888 |
| **Balance 31 December 2007** | **992 800** |

[a] Comprises net adjustments, including those arising from physical inventory count.

**Note 7**
**Future operations**

Following the completion of claims processing, the Governing Council decided at its fifty-eighth session to retain a residual Commission in Geneva comprised of two components: (a) the Governing Council; and (b) a secretariat at reduced scale.

The main functions of the secretariat are to provide support to the Governing Council and its meetings, to implement the Council's decisions, to continue to pay the remaining unpaid awards to successful claimants, which were approximately $29 billion as of 31 December 2007, to continue managing the archiving and disposal of the Commission's records and to oversee the Follow-up Programme for Environmental Awards.